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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

COMPETITIVE PRICE CHANGES	Docket No. CP2023-42

USPS RESPONSE TO CHAIRMAN'S INFORMATION REQUEST NO. 2, WITH PORTIONS FILED UNDER SEAL
(December 1, 2022)

The United States Postal Service hereby provides its response to Chairman's Information Request No. 2, which was issued on November 23, 2022. Responses were due by December 1, 2022. Each question is reprinted verbatim in the attached, and is followed by the Postal Service's response. Certain portions of the Postal Service's responses are being filed under seal. The Postal Service incorporates by reference the Application for Non-Public Treatment filed in this docket for the protection of the material filed under seal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

Elizabeth A. Reed

475 L'Enfant Plaza, SW
Washington, D.C. 20260
(202) 268-3179
Elizabeth.A.Reed@usps.gov
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1. Please refer to Excel file "FCPIS Calc.Redacted.xlsx," which was filed in support of the Notice. The Postal Service labeled the First-Class Package International Service (FCPIS) volumes in tab "FCPIS 2021 Volume," cells C6:V27 as "FCPIS 2021 Revised Volume - Retail." Please explain how this volume was revised. Please also explain why the Postal Service didn't file revised volume in cells Y6:AR27 and AU6:BN27 for FCPIS Commercial Base and FCPIS Commercial Plus, respectively.

RESPONSE:

The title in tab "FCPIS 2021 Volume," cells C6:V27 should have been "FCPIS 2021 Volume – Retail" instead of "FCPIS 2021 Revised Volume – Retail." No revisions to FCPIS 2021 volume were made.

2. In Order No. 6249, the Commission stated that: "the level of detail and breadth and depth of information provided in filings pursuant to 39 C.F.R. §§ 3040.180 and .181 are instructive of the level of detail and information the Commission also expects in filings made pursuant to 39 C.F.R. §§ 3035.102 and .104 and Order No. 1062."[1] In filings pursuant to 39 C.F.R. § 3040.180 and 181, the scope of the information to be provided includes: "the likely impact that the changes will have on users of the product and on competitors." 39 C.F.R. § 3040.181(c).

   a. With respect to the proposed elimination of Priority Mail Regional Rate Boxes (RRB), the Postal Service states that it "expect[s] most existing RRB customers will utilize Priority Mail Cubic going forward. Priority Mail Cubic offers everything that RRBs do, except for free packaging. If these customers choose not to use Priority Mail Cubic, other Priority Mail price categories remain an attractive alternative." Notice at 3-4.

      i. Please provide additional information justifying this statement, including identifying the users of Priority Mail RRB, explaining in the detail the Postal Service's expectation that such users will instead use Priority Mail Cubic, and identifying the other Priority Mail price categories the Postal Service expects to be attractive alternatives for such users.

      ii. Please explain in detail the expected impact on such users of the unavailability of free packaging in the identified alternatives to Priority Mail RRB.

      iii. Please compare and contrast the service features and physical characteristics of Priority Mail RRB to the identified alternatives.

      iv. Please explain in detail how this change will impact competitors and the broader package market, including information on which competitors would be impacted and why the impact is expected to be minimal. *See id.* at 3.

   b. With respect to the changes in Zones L, 1, and 2, the Postal Service states that it "expects this classification change will have a positive impact on its customers, and will have a minimal impact on competitors and the broader package market" and that "[p]roviding consistent Zone 1 and Zone 2 labels across the Postal Service's competitive products will make it easier for customers to understand the Postal Service's pricing structure." *Id.* at 4.

      i. Please provide additional information justifying these statements, including identifying the affected users and explaining in detail why the Postal Service expects the impact on those users to be positive.

      ii. Please explain in detail how this change will impact competitors and the broader package market, including information on which

[1] Docket Nos. CP2022-22 and CP2022-61, Order Granting in Part the United States Postal Service's Motions for Clarifications of Orders No. 6071 and 6195, August 15, 2022, at 14 (Order No. 6249).

competitors would be impacted and why the impact is expected to be minimal.

c. With respect to the proposed elimination of Priority Mail Express International (PMEI) offered at a discount at retail to certain destinations, the Postal Service states that it "does not expect this classification change to have a significant impact on customers or competitors, because the discount at retail was applicable to only a handful of destinations and was not advertised." *Id*. at 6.
   i. Please provide additional information justifying this statement, including identifying the affected users of the product and explaining in detail how this change will impact those users.
   ii. Please explain in detail how this change will impact competitors and the broader package market, including information on which competitors would be impacted and why the impact is expected to not be significant.

d. With respect to the proposed elimination of zones for priority Mail International to Canada, the Postal Service states that "[s]ome customers are likely to benefit from the simplified pricing structure. This classification change is likely to have a small impact on competitors and the broader package market." *Id.* at 7.
   i. Please provide additional information justifying this statement, including identifying the affected users of the product, and explaining in detail which users are likely to benefit from this simplified pricing structure and which users are like to not benefit.
   ii. Please explain in detail the expected impact on competitors and the broader package market, including information on which competitors would be impacted and why the impact is likely to be small.

RESPONSE:

a. i. RRB users are predominantly commercial shippers; in FY 2021, 95.5 percent of all RRB volume was Commercial (including Negotiated Service Agreements) as opposed to Retail. However, with the rise of Priority Mail Cubic, the RRB has been in decline. In the past five years (FY 2017 - FY 2021), the RRB has seen its share of total Priority Mail volume decline from 3.3 percent to 2.1 percent. Meanwhile, the Cubic share rose from 4.9 percent to 12.1 percent. Cubic is a good substitute (notwithstanding the non-provision of free packaging) for the RRB because, like the

RRB, it is priced by zone but not by weight. In fact, the Regional Rate Box A (0.209 cubic feet) can be slotted towards the bottom of Cubic Tier 3 while the Regional Rate Box B (0.409 cubic feet) can be slotted towards the bottom of Cubic Tier 5. It should also be noted that like Cubic volume, RRB volume is well distributed across the zones (rendering the "Regional" label a misnomer). In FY 2021, RRB volume split was 49.7 percent Zones 1 - 4, 50.3 percent Zones 5 - 9.

The inherent substitutability between Cubic and the RRB does not imply that other Priority Mail rate categories might not also be a good substitute for the RRB. Like the RRB, the FRB is not priced by weight and comes with free packaging. Plus, it goes further, by not charging by zone. The Small FRB and the Large FRB, by size, bracket the two RRB box sizes (cubic volume); there is also the Medium FRB placed near the middle. Hence, possibly a strong degree of substitutability should apply here too. Additionally, current RRB shippers will have at their disposal a wide variety of free non-FRB package sizes and shapes to substitute for the two sizes (and four shapes) that they lose (the Regional Rate Box A, versions 1 and 2; the Regional Rate Box B, versions 1 and 2); they will only have to pay by one additional dimension: weight.

a. ii. Please see the response to subpart (a)(i) above. The Postal Service considers the alternatives to be sufficiently rich to render the impacts minimal. Plentiful free packaging alternatives will still exist—both for the FRB and for weight/zone-based rate categories. All free packaging will continue to be available through usps.com.

a. iii. There is no service difference between the RRB and alternative Priority Mail rate categories. Both have a service standard of 1 to 3 days.

The RRB A has two sizes: 10 1/8” x 7 1/8” x 5” and 13 1/6” x 11 1/16” x 2 1/2”. The RRB B also has two sizes: 12 1/4” x 10 1/2" x 5 1/2" and 15” x 12” x 3”. In addition to FRBs, the Postal Service offers a variety of free package options that generally populate the range of RRB sizes and shapes that are being lost, including Box 7, 12 1/4” x 12” x 8 1/2"; the “Shoe Box,” 14 7/8” x 7 3/8” x 5 1/4"; Box-1092, 13 11/16” x 12” x 2 7/8”; Box-1095, 15” x 12” x 3 1/8”; Box 1096L, 9 7/16” x 6 7/16” x 2 3/16”; and Box-1097, 13 7/16” x 11 5/8” x 2 ½”. On top of this, the Postal Service is always open to considering an NSA-based customized package solution for an individual shipper, and is always willing to consider plugging a gap in the lineup of offered free packaging, should one be perceived.

a. iv. Given that a Postal Service rate option is being taken away, there should be no adverse impacts on competitors.

b. i. Separating Local plus Zone 1 (0 - 50 miles) from Zone 2 (50 - 150 miles) is a simple de-averaging exercise, not dissimilar from when a 1/2-pound price was carved out from Priority Mail Commercial Plus 1-pound in Docket No. CP2010-8 (though this was later negated, in Docket No. CP2016-9, when the 1/2-pound and 1-pound prices were set equal to each other). It can be expected that the new Zone L/1 price will be lower than what the Zone L/1/2 price would have been, and the new Zone 2 price will be higher than what the Zone L/1/2 price would have been. Thus, it is not correct to conclude that, from a price standpoint, all customers will be better off. Some will pay less than otherwise, some will pay more than otherwise. However, the overall effect is salutary. This is because there are distinct cost characteristics between Zone L/1 and Zone 2. With respect to Priority Mail, for example, approximately half of all Zone L/1 volume by weight is intra-SCF, thereby avoiding inter-SCF transportation and in most cases an incoming sort compared to inter-SCF. Zone 2, in contrast, is 100 percent (by definition) inter-SCF. By reflecting costs more closely, pricing Zone L/1 and Zone 2 separately will send a more efficient signal to the market (with positive social welfare implications).

b. ii. The Postal Service's competitive products are positioned in the market primarily against those offered by UPS, FedEx, and Amazon. All other things being equal, it can be expected that the de-averaging action will enable the Postal Service to compete more effectively in Zone L/1 and less effectively in Zone 2. However, Zone L/1 adverse impacts on those competitors are likely to be muted, for two reasons. First, for short hauls, such as the 0 - 50 miles that constitute Zone L/1, UPS, FedEx and Amazon compete more with Parcel Select DDU than with any of the Postal Service's zoned products. Indeed, UPS and Amazon (though not FedEx since FY 2020) discretionarily outsource a substantial share of their own packages to Parcel Select DDU for delivery. Second, most of the competition's pricing is negotiated, below-list. It is reasonable to assume that if a customer has a favorable cost profile, such as an average haul of 25 miles, it is likely to get a lower discounted price than a customer with an average haul of, say, 100 miles. Thus, even if the competition does not publish separate Zone L/1 and Zone 2 prices, *de facto* that zone distinction will be manifested in the net (discounted) price. The Postal Service is not able to price as nimbly as the competition; hence there is a greater imperative for the Postal Service to reflect distinct cost characteristics in its published prices.

The Postal Service also competes to a small extent with regional carriers. Such carriers are estimated to account for only about 1 percent of the package delivery market. In general, a separate Zone L/1 (0 - 50 mile) price – in closer accordance with cost – will enable the Postal Service to compete more effectively locally and regionally. However, the market impact is expected to be limited as the Postal Service's main player in that segment is Parcel Select DDU, which will continue to be priced substantially below Zone L/1 for any of its zoned products.

c. i. On page 5 in the Postal Service's initial notice in Docket No. CP2023-42, the Postal Service referred to USPS-FY21-NP9 filed in Docket No. ACR2021, which includes [redacted] Because the discount is only available at retail, the users affected by the termination of the PMEI Discount at Retail would be those individuals who presented items as PMI at a retail counter that were then subsequently upgraded at retail to PMEI service. This change would impact such users by making the upgrade from PMI to PMEI no longer available.

c. ii. The PDF filed in USPS-FY21-NP9 in Docket No. ACR2021 referred to above includes the following statement.

> As noted in the FY 2020 ACR, in FY 2020, the PMEI discount at retail resulted in [redacted] to the Postal Service than if the items had not been upgraded to PMEI service and were processed as PMI. In FY 2021, the PMEI discount at retail resulted in [redacted] to the Postal Service than if items had not been upgraded to PMEI service and were processed as PMI.[2]

In FY 2021, the items that received the PMEI Discount at Retail [redacted] of PMEI volume for FY 2021. Because of this, and because, as the Postal Service stated in its initial notice in the CP2023-42 docket, that "the discount at retail was applicable to only a handful of destinations and was not advertised,"[3] the Postal Service does not expect this classification change to have a significant impact on customers or competitors.

d. i. The affected users are those who mail Priority Mail International (PMI) to Canada. Currently, prices for PMI to Canada are set forth in Mail Classification Schedule subsection 2315.6. For Canada bound PMI shipments, this includes prices for Origin Zones 1.1 to 1.8. Because prices for Origin Zones 1.1 through 1.8 were made identical in the January 2022 competitive published price change that was the subject of Docket No. CP2022-22, the continued existence of Origin Zones 1.1 through 1.8 is not likely be of financial benefit to any users of PMI, although some users might incur

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[2] [redacted] in USPS-FY21-NP9 – FY 2021 Miscellaneous International Data, Docket No. ACR2021, December 29, 2021.

[3] USPS Notice of Changes in Rates and Classifications of General Applicability for Competitive Products, Docket No. CP2023-42, November 10, 2022, at 6.

programming costs as a result of the collapsing of Origin Zones 1.1 through 1.8 into Price Group 1.

d. ii. The competitors that are likely to be affected are the companies that are offering outbound shipping services, from the United States to Canada, that include features similar to Priority Mail International to Canada. The impact on such competitors is likely to be small, because in the January 2022 competitive published price change that was the subject of Docket No. CP2022-22, prices for Origin Zones 1.1 through 1.8 were made identical. Thus, the subsequent elimination in Docket No. CP2023-42 of zones for Priority Mail International to Canada merely involves the collapsing of eight similar columns of prices for PMI to Canada into a single column and is not expected to have much, if any, practical impact on the marketplace.

3. In its Notice, the Postal Service describes the introduction of a new Label Delivery Service. *Id.* at 4-5.
   a. Please provide additional information on how the Label Delivery Service will work operationally, including the creation of the label, the packaging of the label for delivery, and the method used to deliver the label.
   b. Please provide any market research or other information the Postal Service has concerning the expected demand for the Label Delivery Service.
   c. Please provide more detail on the similar competing services identified by the Postal Service, including identifying the competitors offering those services and any published pricing information.

RESPONSE:

a. Merchants will be able to request an outbound/return label from the Postal Service for their end customers using a USPS API, while Residential customers will be able to request a label only through Click-N-Ship. The Postal Service will receive requests via My Post Office (MyPO) and then print the label(s) and cover page with recipient's address(es). Once the label(s) is/are printed, the clerk will place in a flat size envelope and hand to the carrier. The carrier will deliver the label to the customer.

b. Today, customers must visit a retail office or have available to them an online application to create an outbound/return label if the merchant does not include a return label in the shipment. Currently, the Postal Service offers no other option for both retail and commercial customers to obtain a return label. This limitation can create an inconvenience to the customer and can prohibit the Postal Service from obtaining revenue from returns. In addition, the Postal Service does not currently offer an option to deliver outbound labels to customers, when those customers may have a need for outbound labels but the customers do not have the ability to visit a retail office or do not have access to a printer.

The Postal Service conducted an informal survey of 200 consumers to ascertain the potential usage rate of return label delivery. 12 percent of users indicated that this type of service would be their first-choice option if the retailer had not already sent a label with the outbound shipment.

c. UPS offers a return label delivery service for $3.65. UPS will create and deliver a return shipping label and collect the item for return on the following business day for $5.17 / package (1 attempt) or $8.28 / package (3 attempts). FedEx and DHL provide label printing service in-store for a fee.